NTERNATIONAL TRADE

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AND THE

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BY

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PRELIMINARY.

The title of the paper, which I have undertaken to read to this Association to-night, discloses, very concisely, the scope of the inquiry which is embodied in it; and I am afraid it may be thought uninviting.

The conclusions, however, to which it leads have a most important bearing on some questions of practical politics, which concern us all very closely, and which are just now threatening to assume large proportions—questions upon which it is

certain, if they arise, that all of us will take sides with more or less earnestness of purpose, and with regard to which, therefore, it behoves every one to inform himself to the best of his opportunities.

It is now 32 years since the great Free Trade Victory was won. To use the words of Mr. Mongredien (*History of the Free Trade Movement*, p. 1):—

"Up to the year 1824 our system had been strictly protective. We had all but prohibited the admission of foreign articles of food; we had by excessive duties discouraged and curtailed the importation of all other foreign commodities; and we had practically by our navigation laws restricted our foreign trade to the use of British ships. By the close of the year 1849 we had adopted a diametrically opposite policy. We had admitted foreign

grain free of all duty except a small nominal one for registration purposes; we had abolished import duties on nearly every foreign article, and we had repealed those old navigation laws on which our maritime prosperity had so long been supposed to depend.

"Truly a stupendous change, either for good or evil."

In the last chapter of his little book Mr. Mongredien asks,

"What was the result of this revolution on our national welfare?"

and he goes on to show, by reference to statistics of trade and population, that in 1878—perhaps the worst year of our recent industrial depression—the progress which the nation had made in wealth and prosperity during 38 years of free

trade experience was such as to seem almost incredible.[1]

Naturally enough, however, the present generation is but little conscious of this extraordinary advance, and has but little knowledge of the causes to which it is due. Those who have suffered severely from the ill-fortune that has during the past five years attended many branches of trade and production are only too ready to adopt a

[1] The remarkable extent of this progress is made even more plain by Mr. Medley in his recently published *Tract for the Times* entitled *The Reciprocity Craze;* and Lord Derby, in the very admirable speech made by him at Southport on the 7th September, 1881, depicted in very striking colours the advance in well-being which has been effected by this country even during the last ten years.

method of accounting for their evil plight, which apparently lies on the surface of things, and which has the merit of itself suggesting an easy remedy. The great excess in the value of the imports into the United Kingdom over the value of the exports from it seems to prove incontestibly that the foreign producer overbears our home industry and checks its proper activity; bounties on exportation, such as those which Austria offers to her people in the case of beet-root sugar, serve to unfairly promote this influx of foreign products; and the enhanced tariffs of France and other countries injuriously restrict the available markets for our home productions. It must surely be right, it is

argued, to do something to prevent the industries of our own country from being overwhelmed by the advancing tide of importation from abroad; and it is only reasonable reciprocity to refuse to take the commodities of those countries which will not take ours. Both considerations alike dictate a return to, at least, a discriminating system of protective duties.

Thus the old issues of the great Free Trade Controversy are raised again, and it becomes necessary once more to examine closely the principles which govern the commercial intercourse of nations: in particular to inquire into the true significance of the very large proportion which, in the case of the United Kingdom, the

imports bear to exports; and to ascertain the practical effect upon our wealth and industrial productiveness, which on the one hand is attributable to the stimulation of imports resulting from bounty-fed exports on the part of foreign countries, and which on the other hand would be brought about by the diminution of imports through the operation of protective duties in our own country.

With this purpose in view we must commence by having recourse to one or two elementary considerations.

INTERNATIONAL TRADE,

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Relation between Exports and Imports.

In the infancy of international intercourse, the trader, having bought a cargo of goods at home, took them abroad in his own ship, or in one which he had hired, and there exchanged them for goods of foreign countries, which he brought back with him and sold.

It is plain that in a transaction of this kind, in order that there may be a profit, the price realised by the sale of the goods brought back must considerably exceed the price originally paid for the goods taken out, because clearly the trade will not be persisted in unless, upon

the whole, the difference between the two, *i.e.* between the price originally paid and the price realised on the sale, is sufficient not merely to furnish the trader a personal remuneration, but also to repay the outlay made by him on the ship, and in respect of the salary and the maintenance of the crew during the voyage, &c. In other words, at the home of the trader the value of the imported goods must largely exceed the value of those exported.

At the other end of the transaction, *i.e.* in the foreign country where the exchange of goods takes place, there is, by the nature of the case, equality in value between the goods actually given and taken in exchange; but some small portion of the goods brought into the country by the trader must be disposed of in paying for services rendered in the way of landing the goods, effecting the exchange, and in meeting other charges. The remainder, only, is available for the transaction of exchange itself. So that, to some extent, even on the foreign side,

although it is the side on which the imports and exports substantially balance, the value of the total imports exceeds that of the exports.

It thus appears that in the simplest and most primitive form of international trading, the value of the imports must exceed the value of the exports in each of the countries concerned, the difference in each completed transaction being greatest for the country which is the home of the trader.

As commerce advances, and as the mutual dealings between the peoples of any two supposed countries get to be frequent and continuous, it becomes rare for a complete transaction, such as that just described, to be carried out in its entirety by one and the same trader. Generally, exportation and importation come to be distinct businesses pursued by different people. In appearance the importer in some way sends money abroad to buy the goods which he imports, and the exporter gets sent home to him the money which his goods

realise for him by sale in the foreign country. The two traders work quite independently of each other, and seemingly (at least on paper) money passes one way or the other between the two countries for each transaction. But in fact, as a rule, no money ever does so pass, and the apparent money payments are effected by a certain process of pairing off between debtors and creditors.

Indeed it is obvious, if we take, for instance, the case of international trade between England and France, that it would be fruitless for any one to have money of France brought to him in England with the view of employing it there as current coin. The English sovereigns which are introduced into France by travellers, or the French twenty-franc pieces which come in a similar way to England, are, on arrival, exchanged at once for coin of the country by a money dealer. They are bought and sold simply as commodities; it may be for the purpose of being taken to the mint, and there turned into

coin; but more often for that of being applied to the ends which gold and silver serve. And they do not immediately become an addition to the currency of the country.

The method of pairing off just alluded to, which does away with the need for actual transmission of money, or money's worth, may be described as follows:—

Suppose the two countries in question to be designated, for shortness sake, by the letters A and B. There are always persons in A who want, as is ordinarily said, to send or remit money to B; more correctly, they desire by the use or the expenditure of means which they have in A, to become furnished with money at their command, or with money payable to their order in B, in the coin of that country.

These persons may be separated into two classes:—

(*a*) Those whose home of business, *i.e.* the place to which all profits must be brought back, is in A.

(*β*) Those whose home of business is not in A.

(*a*) Of the first class (*a*), the object—

(1) of some may be to pay for goods, which they have already procured, or which they are about to procure, to be bought in B for importation from B to A;

(2) of others to pay for some service or labour rendered to them, or done in their behalf in B, as, for instance, to pay freight for the conveyance of goods from port to port; and

(3) of others to buy an interest in some form of property, or to make some investment or loan, or to set up or maintain some business undertaking in B;

(4) of others, again, to provide funds for the purpose of living or travelling in B; and lastly

(5), of others to make a gratuitous donation to friends or relations in B, or generally to apply the money which is

sought to be transferred to B to some purpose there which does not imply any consideration moving to the donor. Irish settlers in America who are in the habit of sending back large sums of money to their relatives in Ireland, afford an example which falls under this subdivision.

(β) Members of class (β) may be described generally as correspondents or agents of principals in B;—they are persons in A,

(1) who want to send back to B the money proceeds of goods which have been imported into A and sold there on account of their principals; or

(2) who want to send back to B the profits or interest of investments or loans or property belonging to persons whose home is in B; or

(3) who want to send back to B money due in A to persons whose home is in B, the earnings of personal labour

and service expended and rendered in A.

And besides the members of these two classes (α) (β) with their subdivisions, there are also persons in A who, having money at their command in B, want to have it sent to them in A: or more correctly, want to have it exchanged for money at their command in A. These, like the preceding, are divisible into two classes, namely—

(α') Those who have their home in A, and

(1) who, having exported goods from A to B, and sold them there, want to get the proceeds back to A; or

(2) who, having investments or property or money lent in B, want to have the profits or interest thereof sent to them in A; or

(3) who either in person or by agents (as by their ships and crews) have earned money in B, and want to have it sent to them in A. Persons, who, have

retired from public service in the colonies or in foreign countries, entitled to a pension, which they desire to enjoy at home, fall under this head.

(β') Those who have their home of business out of A, and

(1) who, having bought or being about to buy goods in A for exportation on account of principals in B, want to have money provided them from B, wherewith to effect the purchase; or

(2) who being in A want to be provided with money from their principals, or their home of business in B, to enable them to pay for services, &c., rendered them in A; or

(3) who want to be provided with money from their principals in B, in order to be enabled to make an investment in their behalf in A; or

(4) who want to be supplied with funds from their home in B, in order to meet

the expenses of living or travelling in A; or

(5) who want to be supplied with funds out of their own means in B, or by principals in B, for the purpose of being enabled to make a donation or other gratuitous payment in A.

It will be observed that it is only the members of the groups $\alpha 1$, $\beta 1$, $\alpha' 1$, $\beta' 1$, who are strictly speaking, traders, although the distinguishing characters of some of the other groups may more or less arise out of, or be connected with trading. But the fact that in all countries of tolerably advanced civilization there are to be found the various groups of persons forming the classes α and β, who want to exchange a command of money, which they have in the one country A, for an equivalent command of money in the other country B, and also the various groups of persons forming the classes α' and β', who want to exchange a command of money which they have in B, for a command of

money in A, is the basis of a system of pairing off between the classes which enables the business of importing and exporting to be carried on generally in complete independence of each other, and serves to relieve both exporter and importer from the need of making, so to speak, return ventures, in order to complete their several transactions.

The mode in which the process of pairing off is practically effected involves the employment of a certain sort of international money-orders termed bills of exchange. For example, a trader in A who has money payable to him in B for goods which he has sent and sold there, and who consequently belongs to group (a'1), draws a bill of exchange on his debtor, directing him to pay a specified sum of money in the currency of B, being the amount for which the goods were sold to him, or a portion of it, to the person indicated in the bill (as a substitute for the writer of the bill, the original creditor). The bill so drawn he

offers in the bill-market in A, usually through a bank, or a broker, and sells for the best price he can get, to (we will suppose) some member of group (*a*1), who wants to make a payment in B of the amount mentioned in the bill. The purchaser then transmits the bill, which he has thus bought, to the person in B to whom he wants the payment to be made; and the latter, on receiving the document, by presenting it to the person to whom it is directed, gets paid the sum of money named in the bill as being the representative for that purpose of the drawer, to whom that money was originally due.

The result of the transaction when completed is, that the DRAWER of the bill exchanges his right to be paid money in B in the current coin of B (to the amount specified in the bill) for so much money in A of the current coin of A as the sale of his bill brings him.

On the other hand, the PURCHASER of the bill, by paying the price thereof to the drawer

in A in the current coin of A, brings about the payment of the sum of money in B in the current coin of B, which it was his object to make.

Thus the one obtains a transfer, so far as he himself is concerned, of his money from B to A; and the other effects his remittance from A to B without the actual passage of any money whatever either way between A and B.

An exchange of the like character and result may be similarly supposed between a member of any one of the eight groups in the classes (α') (β') and a member of any one of the eight groups of the classes (α) (β).

It is in this manner that all the persons in A who want to send money from A to B, and all the persons in A who want to have money brought or transferred from B to A, are able, by exchanging situations, to satisfy each other's wants. The competition which arises in this process—on the one hand

between those who, at any particular time, offer bills of exchange for sale, and on the other between those who are thus seeking to buy them—leads to the establishment, in the country where the bargaining goes on, of a sort of market rate, or proportion, between the price there to be paid for the bill and the amount of money in the foreign coinage payable under the terms of the bill in the other country; and this rate is termed the rate of exchange at that time and place between the two countries.

These transactions of exchange are commonly effected, as has been already noticed, through the agency of banks and bill-brokers, and constitute a peculiar business with a market of its own. The supply and demand in this market varies more or less from day to day, and with it, of course, the rate of exchange.

Certain practical considerations, however, serve to indicate limits to the range within which this rate can vary under the influence

of competition. The person in A who wants to have the means of paying a sum of money in B, or of being placed in funds there, may always, if he pleases, instead of buying a bill of exchange, buy some merchantable commodity and send it from A to B, there to be converted by sale into the sum of money which is required; and it is plain that he will adopt this alternative rather than the other, when the price asked for the bill of exchange is such as to exceed by a certain margin the sum of money which it would cost him to buy the requisite commodity and to send it to B for sale, namely, by a margin sufficient to compensate for the greater trouble and inconvenience of such a proceeding as compared with the simplicity of buying and transmitting a bill of exchange.

The cost of buying the commodity, and the expenditure involved in sending it from the one country to the other, and there turning it into money, thus furnish a limit beyond which the

price of the bill of exchange cannot generally rise.

It need hardly be added, that a second alternative also is open to the supposed international debtor in A : he may authorize his creditor in B to draw on him to such an amount as will be sufficient, at the price prevailing in the B market, to enable him, the creditor, to pay himself by the sale of it. But, obviously, this amounts merely to having recourse to the foreign bill-market instead of his own.

On the other hand, again, the person in A who wants to have certain money which he has at his command in B, converted into money at his command in A, has also two alternatives to going into market with a bill of exchange for sale: he may direct his correspondent in B to lay out the money (which he is seeking to have transferred from B to A) either in the purchase of a bill of exchange in the B bill-market, or in buying some com-

modity in B and forwarding it to A for sale; and obviously he will not consent to sell his bill of exchange for a price which is materially less (interest for the period of the delay being taken into account) than the amount which he might expect to realize by the sale of the commodity that would be so forwarded to him if he adopted this latter course. Thus the cost of buying the requisite commodity in B, and the expense involved in importing it from B to A and selling it there, will serve to prescribe a limit below which the price of a bill of exchange cannot generally fall.

The commodity, which is usually employed in this way as a means for the apparent transmission of money from one country to another in the event, when the bill of exchange method becomes inconvenient to one of the parties by reason of the market price charged for the bill having attained either of the just-mentioned limits, is one or other of the precious metals —gold or silver—either in the coined or in the

uncoined state. On reaching its destination this commodity is turned into money of the country to which it has come, generally by being sold or pledged; but sometimes by being taken to the Mint and there coined, or to a bank of issue and there being exchanged for notes.

The capacity of bullion for subdivision, and the comparative certainty as to how much local money a given quantity of it will produce, either in the Mint or in the bullion market at the place of its destination, are the principal grounds for the preference which is given to it in these operations. Occasionally, however, circumstances are such as to make it more advantageous to use in its stead, for the time being, some other commodity—say precious stones, or tea, or coffee, &c.—according to the turn of the market.

It thus appears that the process by which money is remitted from one country to another, or by which a debtor in one country discharges a debt due from him to a creditor

in another country, is generally a simple exchange of debits and credits effected in either the one country or in the other, as the case may be; only, that when the market price charged for the accommodation of exchange approaches certain limits depending on the prices of gold and silver and the cost of their transport, the remitter of the money, instead of having recourse to the method of exchange, sends a sufficient quantity of one of the precious metals to produce, by its sale in the country to which it is sent, the sum of money which he has to pay there.

With these facts in view, and bearing in mind that of the items of the exchange market which are set out in the foregoing classes (α), (β), (α'), (β'), it is only the first of each class that is immediately connected with importation or exportation of commodities, we are in a position to examine a little closely the different heads of trading.

If we take the case of an importer of goods

falling within group (a1), and suppose him to remit the money required to pay for the purchase of goods abroad, and to meet the expense of sending them home, by the expedient of buying a bill of exchange which happens to be drawn by an exporter of goods belonging to group (a'1), then it is plain that the importer in effect buys the venture of the exporter to the extent of so much of the exported goods as produced on sale the amount specified in the bill of exchange; and the double transaction becomes practically the same thing as the primitive form of trading with which we set out, only that two persons instead of one are concerned in the affair, and the profit is divided between them—the one exports goods, sells them, and then sells his bargain to the other, who employs the proceeds abroad in the purchase of other goods and the importation of them.

The same thing occurs when an importer of goods belonging to the group (a1) buys his

bill of exchange from an exporter of goods belonging to group ($\beta' 1$); and also when an importer of goods belonging to group ($\beta 1$) buys his bill of exchange from an exporter of goods belonging either to group ($\alpha' 1$) or to group ($\beta' 1$).

In all these four cases alike the imported goods are paid for abroad by the net proceeds resulting from the sale in the foreign country of a certain sufficient quantity of exported goods.

Also on the average of transactions in these cases the price paid by the importer for his bill of exchange will, for the reasons already given, be considerably less than the gross sum which the goods imported by him realize on sale, because the difference must pay both the importer's profit and the cost of bringing the goods to sale in the country of importation: at the same time, this price paid for the bill of exchange will be at least as great as the cost of the exported goods, and generally

greater. It follows, therefore, that in all these groups of exchanges the value, in the country designated A, of the imported goods is greatly larger than the value of the exported goods. Moreover, in the country designated B for the same four groups of exchanges, inasmuch as it is the net proceeds of sale after defraying the cost in B of bringing the goods (exported from A) to market which buy the goods exported from B and imported into A, it is evident that to the extent measured by these costs the value of the imported goods exceeds that of the exported goods.

Or, briefly, in international trading, so far as it is represented by these four groups of exchanges, in both countries concerned, the value of the importations exceeds the value of the exportations.

If, again, an importer of goods falling within either of the groups ($\alpha 1$), ($\beta 1$) buy his bill of exchange from a member of group ($\alpha' 2$) the effect is that the owner of investments or

property abroad sends home his interest or profits in the shape of goods, sharing the proceeds of those goods with the person who actually brought about the importation: that is, he in effect pays for the goods in B, and takes from the importer in A so much of the proceeds of their sale as is specified in the bill of exchange, leaving the rest in the importer's hands.

If, next, the exchange takes place between a member of either of the groups (α1), (β1), and a member of (α'3), the effect is that a person who has worked for the foreigner abroad sends home his earnings, whether they be freight, wages, pension, or savings in the shape of goods, sharing in the manner just mentioned the proceeds of those goods with the person who brought about the importation.

Similarly, exchanges between a member of either of the groups (α1), (β1), on the one hand, and a member of any one of the groups (β'2), (β'3), (β'4), and (β'5), on the other, in effect

amount to this, namely, that the latter party, for the purpose which characterizes his group, sends money from B to A in the shape of goods, and from the proceeds of the sale of those goods takes a specified amount of money for himself, leaving the residue to the person who brought about the importation.

Also, exchanges between a member of any one of the groups ($\alpha 2$), ($\alpha 3$), ($\alpha 4$), ($\alpha 5$), ($\beta 2$), and ($\beta 3$), on the one hand, and a member of either of the groups ($\alpha' 1$) and ($\beta' 1$) on the other, in effect amount to this, namely, that the former party, for the purpose which distinguishes his group, sends money from A to B in the shape of goods, giving the actual exporter of the goods from it something for his venture.

The remaining set, of exchanges between members of the groups ($\alpha 2$), ($\alpha 3$), ($\alpha 4$), ($\alpha 5$), ($\beta 2$), and ($\beta 3$), on the one side, and members of the groups ($\alpha' 2$), ($\alpha' 3$), ($\beta' 2$), ($\beta' 3$), ($\beta' 4$), and ($\beta' 5$), on the other, do not involve the ingredient of the

transport of goods, and are merely financial arrangements made between the parties thereto.

And the case where in lieu of an exchange the party concerned has recourse to the export or import (as the case may be) of bullion, is a simple form of one of the preceding illustrations, because, as has been already noticed, the bullion in such a transaction only plays the part of an ordinary merchantable commodity.

The state of things and the sets of exchanges which have just been considered, are those which are to be found in the one country A, of the pair designated A and B, relative to the other country B. A similar state of things and similar sets of exchanges occur simultaneously in B; and like conclusions follow from an examination of them, only that when viewed as part of the trade of A the imports into B are exports from A; and *vice versâ.*

The result on the whole is, that the entire trade of one of the two countries, as A with the other country B, admits of being

conveniently grouped into the following three divisions:—

I.—A certain portion of the imports of A is paired with, and in a qualified sense balances, a certain portion of its exports;

II.—The remainder of A's *imports* constitutes the medium under the form of which money, or money power, is transferred from B to A for the following objects, viz.:

for the transmission to A of the interest or profits arising out of investments or property in B which belong to people in A;

for the transmission to A of earnings made in B by persons belonging to A;

for employment in A in the way of

making investments or purchases in A on behalf of persons in B; or

paying for services performed there for persons in B; or

supplying funds to meet the expenses of persons belonging to B

who are travelling or living in A; or making a donation on the part of persons in B to persons in A.

III.—The remainder of A's *exports*, after exclusion of the portion which goes to balance imports, constitutes the means by which money, or money power, is transferred from A to B for the like purposes, *mutatis mutandis.*

In most countries of advanced civilization division (I) comprises the bulk of the international trade. And it has been already pointed out that, of the two sides of this group, the imports always exceed the exports in value, the excess being the larger in proportion to the amount of the trade carried on by home-traders as distinguished from that carried on by foreigners, whose home of business is elsewhere.

There seem to be no necessary relations between the other two groups (II) and (III), *i.e.* between the remainder of the imports and the remainder of the exports.

In some countries, as in England and in France, we find that the difference between these latter groups is either in favour of the imports or, at any rate, is not such as to counterbalance the excess of imports over exports which occurs in the group (I); so that the trade, in the whole, exhibits a considerable excess in value of imports over exports.

In other countries, on the contrary, as in India, Ceylon, and the United States of America, the value of the total exports largely exceeds that of the total imports, and therefore the value of the exports forming group (III) must exceed the value of the imports forming group (II) by considerably more than the value of the margin by which imports exceed exports in item (I).

In other words, the exported goods, which answer to, and which afford the means for the transmission abroad,

> of the interest and profits accruing on the investments held in the country by foreigners;

of wages, salaries, pensions, earned by foreigners through service in the country;

of funds for investment abroad;

of funds for payment of services rendered abroad;

of funds to be spent in living or travelling abroad;

of funds sent abroad for no return personal or material;

must be greatly larger in value than the imported goods which answer to, and which afford the means for bringing into the country

the interest and profits accruing on investments abroad;

the wages, salaries, pensions earned by personal service abroad;

funds transmitted to the country by foreigners for investment;

funds transmitted to the country by foreigners for payment of services rendered to them there;

funds transmitted to the country by foreigners to meet the cost of living or travelling;

funds transmitted to the country by foreigners for no return.

But it may be safely assumed that in the long run the returns which the foreign investments of a country bring back to it are very appreciably larger than the original outlay in respect thereof; and, therefore, in making this comparison we may omit the third item on the one side and the first item on the other. This being done, the conclusion arrived at then reduces itself to this, namely,

That in countries where the value of the exports exceeds the value of the imports, such portion of the *exported* goods as constitutes the medium for the transmission of

interest and profits accruing on investments held in the country by foreigners and sent abroad;

wages, salaries, pensions, freight, &c., earned

in the country by foreigners and sent abroad;

funds sent out of the country

to pay for services rendered aboard; or

to pay cost of living or travelling abroad; or

to be given away abroad;

must be very greatly larger in value than so much of the *imported* goods as similarly represents

wages, salaries, pensions, freights, &c., earned abroad and sent home;

funds transmitted to the country from abroad by foreigners;

for investment;

to pay for services;

to meet cost of living or travelling in the country;

to be given away.

By the aid of a comparative arrangement of this kind it ought not to be difficult to detect

the particular causes which give rise to the excess in value of exports over imports in the countries above named respectively. But for the moment it is not necessary to enter upon this ground.

So far as concerns those industries of a country which produce the goods that are exported and the persons who carry on the business of exporting, it is a matter of indifference what the subject is against which the exchange is effected; whether the exported goods go to pay for goods imported or constitute the means through which rents and profits arising from home investments reach a foreign owner, or through which freight is conveyed to foreign carriers, or funds are forwarded for expenditure abroad,—in each such case alike the producer parts with his goods for current coin of his own country and knows no more of the matter.

Upon the state of the home market, however, and the interests of the consumer, the effect of

these several alternatives is by no means the same for each. In the first alternative, the goods of the higher value which come in replace the goods of the lesser value which go out, and the advantage to the consumer is obvious; it is as if the country *pro tanto* produced a commodity of higher value to the community in the place of one of lesser value. In the other alternatives, on the contrary, nothing is brought in to replace the goods which go out, though in one of them, namely that in which the exported goods went to pay for carrying services done by foreigners, a certain amount of home skill and energy, which would otherwise have been expended in this work, has been left free for other forms of industrial activity. In another, viz. where rents and profits of investment are sent abroad, probably something of less value originally came in to initiate the investment, without which, it may be, the rents and profits would never have arisen. While in the third, the exported goods are distributed abroad instead of at home without

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So far as concerns those industries of a country which produce the goods that are exported and the persons who carry on the business of exporting, it is a matter of indifference what the subject is against which the exchange is effected; whether the exported goods go to pay for goods imported or constitute the means through which rents and profits arising from home investments reach a foreign owner, or through which freight is conveyed to foreign carriers, or funds are forwarded for expenditure abroad,—in each such case alike the producer parts with his goods for current coin of his own country and knows no more of the matter.

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the accrual of any sort of compensation to the home market.

Similarly, in the case of imports, the importer cares but little what is the foundation of the bill of exchange which he purchases to send abroad by way of paying for his goods. But plainly the advantage to the home consumer and the augmentation to the wealth of the country, which are brought about by the addition of the imported goods to the home supply, vary greatly with the nature of the circumstances which led the drawer to make his bill. For instance, if the bill is drawn against goods exported, these latter will be lost to the home market, and must be set off against the addition thereto, that is, furnished by the importation, which the bill pays for. It has already been pointed out that the balance in this matter of exchange will always be, greater or smaller, on the side of the imports.

If, secondly, the bill be drawn against wages, freight, &c., earned abroad, the importation

comes to be in effect the product of an industry belonging to home, but active abroad, probably because the foreign field affords the larger return; and the gain to the country is the excess in value of this foreign return over that which would have been produced by the exertion of the same industrial power at home.

Again, if the bill be drawn against profits and interest accruing on investments in the foreign country, then the imported goods are a gain to the country of import by the extent to which they exceed in value the goods (if any) which originally went to furnish funds for the investment.

And, lastly, if the bill which goes to pay for the imported goods be drawn merely against means possessed by the drawer in the foreign country with the object of procuring the transmission, or rather transference, of funds from thence to the country in which it is drawn, then the imported goods are wholly a gain to the country of import; though if the purpose for

which the funds are transferred is investment, there will afterwards follow, in all probability, an exportation of goods back again, representing the rents and profits of the investment, such as will be of greater money value in the country of their destination than the amount of the funds so transferred.

While, therefore, it is an advantage without qualification to those persons in any country who are immediately engaged in the enterprise of importing or exporting commodities, that their respective branches of the international trade of that country should be as largely extended as possible, yet it is at the same time the interest of all other persons in the country that there should be no exportation of any home products unless with the effect of furnishing a corresponding importation of foreign products; in other words, that any exportation which takes place should go against importation rather than against the other items of exchange which have been mentioned; and, further, that

the importation which does not involve any outgoing from the home country, *i.e.* which does not involve either the exportation of home products or the employment abroad of industrial power withdrawn from home, should be so much as may be encouraged.

The outcome of this discussion may be briefly presented under a somewhat different aspect :—

The money which the exporter of goods earns by his business of sending abroad home-products for sale in foreign countries, does not come immediately from those countries. Unless he himself invests the sale proceeds abroad in foreign commodities and imports these commodities for sale at home, which he seldom does, he can only obtain his money by, in effect, selling his venture either to one who is an importer of goods into his, the exporter's, country whether such person be a foreigner or a home-trader, for the purpose of its yielding the latter funds wherewith to effect the importation, or to one who wants to send money abroad

independently of importation; and in the former case for a given exportation the corresponding importation is the least when the importer is a foreigner having his home of business abroad.

The export of home products is, obviously, not a thing to be desired for its own sake by any members of the community other than the exporter and those who share in his prosperity. And the profits of export trade come either out of the home community or are derived through the imports.

Imported commodities, on the other hand, are manifestly always so much addition to the home supply, and therefore always constitute so much increase to the general wealth of the community, except so far as the importation may indirectly have the effect of checking home production.

Indeed, between nations, as between individuals, it is to the interest of each one to get as much as it can of the fruits of the others'

industry and capital, and to keep all that it can of its own. Importation, therefore, rather than exportation, should be esteemed the one governing aim of all civilized countries.

But no country can of its own motion procure the importation into it of foreign products except by giving either some of its own products, or the labour, skill, and personal service of its own people, in exchange for them. Even the importation which serves to convey home the rents and profits of foreign investment is (generally speaking) only the return (commonly manifold) for the exported products which went to effect the investment. As, however, there is a certain amount of, so to speak, gratuitous exportation, so there is also a certain amount of importation, without any corresponding outgoing of any kind, effected by foreigners and other persons who, having the sources of their pecuniary means abroad, for ends of their own, transfer money power from thence to the country of importation.

With these conclusions in view we may consider for a moment some of the leading facts in the foreign trade of the United Kingdom.

From the tables given in the *Financial Reform Almanack* of the present year, it appears that the total exports—merchandise, bullion, and specie—of the United Kingdom in 1879 amounted to £277,368,276.

A portion of these exports constituted the medium under the form of which money was sent to the Riviera, Madeira, and elsewhere in foreign countries, to meet the expenses ot Englishmen travelling, or living, abroad.

Another portion supplied the medium for the transport of money to furnish funds for investment, or for the upkeep of existing undertakings in foreign countries and in the colonies.

Another portion again conveyed home the savings made in the United Kingdom by foreigners employed there, the interests and

profits arising from investments and property in the United Kingdom belonging to foreigners, and so on.

But by far the largest portion went out practically to be exchanged for merchandise, bullion, or specie imported.

According to the same authority, the total imports in the same year, including merchandise, bullion, and specie, amounted in value to £387,147,413; and therefore exceeded the exports in value by a margin of £109,779,137, *i.e.* by nearly two-fifths of the entire exports.

This enormous body of imports is attributable to several different causes:

In the first place, a portion—in more senses than one the most considerable portion—comes in by way of exchange against exports. And it will be remembered that the result of this process always exhibits an excess in value of imports over exports, which is a minimum when both the exporter and the importer are foreigners, with home of business abroad, and

a maximum when they both have their homes in the United Kingdom.

A second portion represents the produce of English personal service abroad, and includes the savings of officials, civil and military, superintendents of plantations, skilled workmen, &c., made in India and the colonies and sent home; also pensions drawn from abroad and the earnings[1] of our mercantile marine in foreign carrying trade.

A third portion is in effect the proceeds of investments held by Englishmen, and of undertakings worked by English capital and industry in foreign countries and in the colonies. Indigo concerns and tea gardens in India, coffee plantations in Ceylon, mines in America, interest of foreign stocks and dividends on shares in foreign enterprises payable to English owners, furnish examples under this head.

[1] The writer of the city article in the *Times* newspaper of the 8*th Aug.* 1881, put these alone at something between £20,000,000 and £30,000,000.

Again, another portion is the medium which yields the funds transmitted by foreigners to the United Kingdom for investment, or to pay for services rendered to them[1] or to meet the expenses of living there, as well as the money sent home by Irish emigrants to their relatives in the old country.

A French statesman is lately reported to have said that "France must henceforth lay down the principle of taking the products of foreigners in order that the latter may take hers." This is a striking instance of the cart being put before the horse. It is an inversion of the true principle, such as must arise from misconception of the functions discharged by money; for it would be impossible if it were remembered that international trade is essentially a system of barter. It has been already noticed that

[1] London is in a great degree the banking place and money market for the whole world, and the profit derived by our money dealers of all kinds from their transactions with foreigners, *i.e.* their remuneration for services rendered to foreigners in this business, is very large.

such small quantities of money as do pass, say between France and England, in the course of the year, pass as merchantable commodities, not as current coin.

It cannot be too markedly stated that in England, as well as every other country, so much of the exports as balance, or rather pair against imports in the ordinary course of trade, are paid for out of the proceeds of those imports; and that the remainder constitute the means by which money power is sent abroad, and are paid for by the persons who, for whatever reason, transmit that money power to foreign countries. In other words, the profits of English exporters are primarily drawn from an English source, and only so much of them ultimately come from the foreigner as are derived through exports.

It is plain then that of the two—exports and imports—it is the imports which enrich the country; and the extraordinary wealth of England is in very large degree fed by the excess

in regard to value of her imports over her exports.

The truth is, that instead of taking the products of foreigners in order to induce them to take ours, we send out our products to foreigners for the purpose of getting them to let us have as much as possible of their products in return.

Indeed, the one great object for which we export our home products to foreign countries, for which our mercantile marine employs itself in doing the carrying work of foreigners, for which numbers of Englishmen pass the best part of their lives in the colonies or in foreign countries, for which they set up and maintain industrial enterprises in all parts of the world, is, in effect, to gather and draw home to England as great a mass of foreign products as possible. And if the mass of products so brought to England were not, in the long run, considerably greater in value in the English market than the products actually exported, together with those which the industry and capital

thus employed abroad could have produced had they remained active at home, it is manifest that the trading and the foreign enterprise would soon come to an end.

What importation means for England seems to be insufficiently realized even by many professed economists. Hardly any article about us of the commonest use is without its foreign ingredient. Our tables and chairs, the floors and roofs of our houses, much of our carriages and even of our ships, are made out of foreign timber. Foreign wool enters largely into our clothes and our carpets. What would be the aspect of our well-to-do folks if the foreign supply of silk, jewelry, gold and silver, &c., were stopped? And without the cotton, the sugar, the food condiments, and the oils, which we get from abroad, we should fall back into a semi-barbarous state of living.

Moreover, our extraordinary productive activity, to which we owe such prominence of wealth and power as we possess relative to

other nations, rests entirely on a foundation of importation. Shut out all the material that now comes to us from abroad, and the only possible industries left at home would be those which deal with cereal and pastural agriculture, coal, iron, and some of the other minerals (such as pottery materials, &c.), English grown woods, hides, and wools, &c. One third at least of the population would have to emigrate or starve; the supply of food to the remainder would be fluctuating and uncertain in amount, and the general conditions of life would be those of mediæval times.

Other countries are by no means all in this predicament. America can procure within her own borders almost all the materials necessary to the most advanced stage of productive industry. And even France is more advantageously placed in this respect than England.

The position, which so far seems to have been established, may be shortly restated: Importation is a source of wealth to all countries:

it will not go on when it is not so; and it is all-important to England.

On the other hand, exportation takes place at the cost of the exporting country or of people therein; and so much of it as meets with any return, does so in the shape either of imports or of services performed at home or abroad by foreigners.

In the case of England, the great bulk of the exports go to procure imports; and of the remaining imports not so procured, those which are the fruit of English industrial enterprises and investments carried on and maintained abroad, and of services rendered by Englishmen to foreigners out of England, are very considerable.

Our national wealth is the aggregate of

such productions of our home industries as we use ourselves; and

such foreign productions in addition thereto as we procure, *firstly*, in exchange for other of our home productions, which

we do not use; and *secondly*, as the fruit of service rendered to foreigners, and industry exercised by us abroad; and *lastly*,

such foreign productions as come to us by the (so to say) gratuitous contributions of foreigners.

Such of our home productions as go to the foreigner without return cannot in strictness be reckoned as part of the national wealth.

The total national wealth, *i.e.* the aggregate, just described, of home and foreign productions, is shared among the individuals of the whole community by a complex process of distribution, which depends partly upon participation more or less direct in the work of production, partly upon other kinds of activity for which there is a demand in the community, and partly upon proprietary rights.

The productiveness of our industries is thus the measure of our wealth, national and private. The actual productions themselves may be,

and in fact are, limited in their nature; and only a comparatively small portion of the entire quantity turned out as the result of all the various kinds of industrial activity is applied to, and consumed in, home use. But the remainder goes abroad to be exchanged for the foreign productions which are needed at home, and which in this way become truly the result of the national industry; consequently the larger the amount of the foreign productions which can be obtained by the process of exchange, the more productive virtually does our home industry become. The greater the proportion which the imports can be made to bear to the exports, which practically go out to fetch them, the larger becomes the whole body of wealth, of which each member of the community gets his share according to his pecuniary means.

[1] The pith of the foregoing discussion admits

[1] The seven following pages were not read at the Meeting.

of being exhibited concisely in a symbolical form.

Suppose cloth to be bought and sold at £c_e a bale in England, and at c_g thalers a bale in Germany, wine to be bought and sold at £w_e a tun in England, and at w_g thalers a tun in Germany.

Also, suppose £f_e per bale to be the cost (for freight and other expenses) of exporting cloth from England to Germany, d_g thalers per bale to be the cost (for duty and other expenses) of importing cloth from England into Germany, f_g thalers per tun to be the cost (for freight, &c.) of exporting wine from Germany to England, £d_e per tun to be the cost (for duty, &c.) of importing wine from Germany into England.

If, therefore, a trader in England exports x bales of cloth to Germany he will there realize for them $x(c_g - d_g)$ thalers.

With this money he can buy and export to England

$$\frac{x(c_g - d_g)}{w_g + f_g}$$

tuns of wine.

By hypothesis it will cost him d_e per tun to clear and land this, and as he can sell it for $\pounds w_e$ per tun, he will by the transaction realize the sum of

$$\pounds\frac{x(c_g - d_g)}{w_g + f_g}(w_e - d_e).$$

But the cost of exporting the x bales of cloth which originated the venture amounted to the sum of $\pounds x(c_e + f_e)$.

Therefore the profit made by the double transaction of exporting and importing

$$= \pounds x\left\{\frac{c_g - d_g}{w_g + f_g}(w_e - d_e) - (c_e + f_e)\right\}$$

$$= \pounds x\frac{(c_g - d_g)(w_e - d_e) - (c_e + f_e)(w_g + f_g)}{(w_g + f_g)}$$

and consequently the rate of profit per £ on the first expenditure

$$\text{(A)} \quad = \frac{(c_g - d_g)(w_e - d_e) - (c_e + f_e)(w_g + f_g)}{(c_e + f_e)(w_g + f_g)}.$$

From the symmetry of this expression we see that a German trader exporting wine from Germany into England, and with the proceeds

importing cloth from England into Germany, makes the same rate of profit on his original expenditure as the English trader does by the converse proceeding, provided only the export and import expenses in regard to each item are at the same rate for both.

But in the first case, *i.e.* the case of the English trader,

$$\frac{\text{the number of tuns of wine imported}}{\text{the number of bales of cloth exported}} = \frac{c_g - d_g}{w_g + f_g}.$$

In the second case, that of the German trader,

$$\frac{\text{the number of tuns of wine imported}}{\text{the number of bales of cloth exported}} = \frac{c_e + f_e}{w_e - d_e}.$$

Consequently, for the same number of bales of cloth exported from England into Germany by the English and the German trader respectively

$$\text{(B)} \quad \frac{\text{No. of tuns of wine imp. in 1st case}}{\text{No. of tuns of wine imp. in 2nd case}} = \frac{(c_g - d_g)(w_e - d_e)}{(c_e + f_e)(w_g + f_g)}.$$

And it is obvious that the condition which

makes the trader's profit (expression (A)) a positive quantity makes this ratio (B) greater than unity.

In other words, it appears from the formulæ (A) and (B) that whenever cloth produced in England, and wine produced in Germany, can be profitably exchanged against each other, the percentage of profit is the same whether the trader operate from England or from Germany.

And, further, that for a given quantity of exported goods the quantity of the imported goods is greater when the double transaction is effected from the country of import, than when it is effected from the foreign country.

In the case of the English trader again, the difference between the value of the products which he imports and the value of the products which he exports

$$= £x\left(\frac{c_g - d_g}{w_g + f_g} w_e - c_e\right).$$

But the condition of profitable trading is (see A) ·

$$\frac{c_g - d_g}{w_g + f_g} > \frac{c_e + f_e}{w_e - d_e},$$

$$\therefore \frac{c_g - d_g}{w_g + f_g} w_e > c_e + f_e + d_e \frac{c_g - d_g}{w_g + f_g};$$

and as

$$\frac{c_g - d_g}{w_g + f_g}$$

is necessarily positive,

$$\frac{c_g - d_g}{w_g + f_g} w_e$$

is, *à fortiori*, greater than c_e; viz., where the exchange is effected by the English trader, the value of the imports into England exceeds the value of the exports by a positive quantity.

Also in the case where the exchange is effected by the foreign trader the difference between the value of the imports into England, and the value of the exports from England

$$= £y\left(w_e - \frac{w_e - d_e}{c_e + f_e} c_e\right)$$

$$= £y \frac{w_e f_e + d_e c_e}{c_e + f_e};$$

or, the value of the imports exceeds the value of the exports by a positive quantity.

If a commodity which is sent from one country to another in the way of trade be viewed as being in a certain sense analogous to a bill of exchange, then the ratio between the net proceeds realized by sale of it in the country of importation to the cost of buying it and sending it out of the country from which it is exported, is substantially the rate of exchange effected by the transaction.

With this abbreviation the condition of profitable trading given by the foregoing formula (A) may be expressed shortly in words :

The cost of buying and exporting a bale of cloth from England to Germany is £$(c_e + f_e)$, and the net amount which it realizes in Germany is $(c_g - d_g)$ thalers, therefore the rate of exchange in England on Germany, through the medium of cloth, is

$$\frac{c_g - d_g}{c_e + f_e}.$$

Similarly, the rate of exchange in Germany on England, through the medium of wine, is

$$\frac{w_e - d_e}{w_g + f_g}.$$

But the condition of there being profit in the exchange of cloth from England with wine from Germany is (see A)

$$\frac{c_g - d_g}{c_e + f_e} \frac{w_e - d_e}{w_g + f_g} - 1 > 0:$$

that is, the rate of exchange in England on Germany through the medium of cloth, and the rate of exchange in Germany on England through the medium of wine, must be so related that either of them is greater than the reciprocal of the other.

And, inasmuch as the rate of exchange in the bill market at any time cannot usually vary greatly from the rate which is then attainable by the transmission of the most advantageous commodity in lieu of paper, it seems to follow that this relation will be approximately true for the rates of exchange prevailing at a given time

between any two countries under normal conditions of trade, namely, that either one is greater than the reciprocal of the other.

With the aid of the conclusions to which the foregoing discussion has led us, it is not difficult to complete the inquiry with which this paper is prefaced.

The significance of the excess in value of our imports over our exports has been amply explained in the body of the paper itself. It means healthy interchange of products with foreign countries to an almost unexampled extent without any considerable outward drain for purposes that do not involve material return. It indicates, besides, that the industrial activity of the country is almost entirely independent of capital, labour, or skill having a foreign home; and that the country, as a whole, while receiving large remuneration for service done for foreigners abroad, has itself comparatively little foreign service to pay for. In short, the excess in value of imports over exports affords

substantially the measure of the rapidity with which the country is enriching itself by commercial and industrial intercourse with foreign nations.

The practical operation, with regard to ourselves, of the system of paying bounties on exportations, which is in force in some foreign countries, is also very plain. The bounty-aided commodity is imported so much the cheaper into this country, and the demand for it is commensurably increased. The increased cheapness means, of course, that an increased quantity of the commodity comes in for the same amount of export; but the increased demand, which follows an increased cheapness, is not usually satisfied with this margin of increase in the quantity obtained for the old expenditure; more still is wanted, and to fetch this an increase must take place in the exports. So that the immediate effect in this country of foreign bounties on exportation is an increase of importation both in amount and in value, and

also an increase of exportation, though this latter takes place in less degree. The increased cheapness in the imported article may, no doubt, indirectly lead to the displacement of a home industry, such as has recently happened, it is said, to a certain class of sugar refiners in this country as the result of the Austrian bounty system; but at the same time, inasmuch as the activity of the industries which furnish the exports is also increased, the loss of the one industry must be put against the gain of the other.

The third, and last, head of the inquiry is the converse of the bounty question. The very object of protective duties is to effect at least a diminution of imports. This they bring about by enhancing the price at which the commodity affected by them can be sold on importation, and by so lessening the demand for them. But the explanation which has been given above shows that so much of the total importation as is adjustable in this manner comes into the

country by way of return, or by way of payment for exports; its diminution therefore is so much diminution of the remuneration for export. In other words, so far as protective duties are operative to prevent the importation into this country of foreign commodities, to the like extent they restrict the foreign market for our exports. It follows that, as a measure of retaliation, or as it is sometimes termed reciprocity, directed against a hostile tariff, the imposition of protective duties is absolutely suicidal; it not only punishes the consumer by diminishing the supply to the home community, but it actually aggravates the disorder which it is especially designed to cure, inasmuch as it augments the restraint upon exportation, which is the very ground of complaint against the tariff that is objected to.

As a measure of advantage, however, to the home industry that produces the commodity upon which the duty is laid, no doubt the imposition of the duty is successful, for it raises

the price of that commodity in the home market. But it must not be forgotten that this advantage is drawn entirely from the pockets of a diminished body of home consumers, and is inseparable from loss to those home industries, which by force of the duty have, as just mentioned, the foreign market narrowed for their productions; and further, that although the enhanced price serves to yield enlarged returns to the home producer, and so in some degree leads to an increase of home production, yet the diminution of demand which ensues from the higher price means less use and enjoyment of the commodity on the whole; and therefore the community is correspondingly poorer.

Or to put the matter in a slightly different way: It has been pointed out in the foregoing pages, that when the productions of a home industry are exported abroad, and are there exchanged for foreign productions, which are brought home, the latter become for the home

community the effective productions of the exporting industry. It follows, therefore, that in the case where a home industry complains of being injured by the importation of foreign commodities, its real competitor is not so much the foreign producer of those commodities as the home industry whose products are exported to bring them in. And the practical result of keeping these commodities out by the instrumentality of protective duties is to handicap the exporting industry in favour of the industry which immediately produces the commodity, and to lessen the total supply to the home community of the commodity which the two industries together, the one directly, the other indirectly, furnish.

Doubtless, on the other hand, some compensation for the shortcoming, which is thus brought about in the supply of this particular commodity, may sometimes be derived from the partial substitution for it of some other less desirable commodity ; and such substitution,

so far as it takes place, will work an advantage to some industry, which must be set against the detriment accruing, as just now pointed out, to the exporting industries by the operation of the protective duties. And in such case no very precise comparison can be made of the opposing industrial consequences, which thus arise on the one side and the other, in the competition of home industries, as the result of a protective tariff. But it seems obvious that, if all forms of industry within a community are viewed as an entirety, the activity and productive efficiency of the whole must be diminished rather than otherwise by an expedient which amounts to the placing of an obstacle in the way of the productiveness of some of them, in the endeavour to alleviate the competitive pressure upon others to which that productiveness gives rise.

We thus come in view of the cardinal doctrine of Free Trade policy, namely, that the maximum development and efficiency of the entire industrial system of any community is

attained by each branch being left, as much as possible, free to find, and to make the best of, its own opportunities, and that the fostering of any one industry, by the establishment of protective duties on the imports which compete with it, necessarily works to the disadvantage of others, to such an extent as to materially diminish the effective productiveness of the whole system.

It is important to bear in mind that although, of course, the behaviour of foreign countries in the way of facilitating or obstructing the passage of commodities into or out of their own borders is one of the most influential among the conditions under which international commerce is carried on, still it lies outside the primary scope of the great Free Trade maxim just enunciated.

That maxim, when generalised, no doubt, declares not only that every country best promotes the efficiency of its own industries by permitting their productions to exchange as freely as possible with the productions of other countries, but also that it is a loss to

both of any two intertrading countries when either of them checks the importation into itself of commodities from the other. Yet, quite independently of this international rule, whatever may be the conduct towards us of any foreign country in these respects—even should it be such as to work us loss by hindering the productions of our industries from coming to it for the purpose of being exchanged for those of its own productions that are seeking exportation—still we find from the foregoing conclusions that the situation will only be made worse by attempting to better it through the means of tariff arrangements.

In short, it cannot be too often or too strongly insisted upon, that the imposition or adjustment of customs duties is essentially an affair of domestic policy, which supremely concerns the general body of consumers, and in regard to which the exporting and non-exporting industries stand in competition with each other; and further, that every blow aimed at foreign

countries through the instrumentality of a customs tariff recoils with augmented force upon the home exporting industries, because protective duties on imports simply cut off the means by which exports are paid for.

NOTE.—Should no modification of the new French Tariff be made, by treaty or otherwise, as regards England, our usual means of paying for the articles, such as wines, silks, &c., that we are now in the habit of taking from France, will be greatly curtailed. France will no longer receive from us the commodities which have hitherto served as such means of payment; and if the trade between the two countries is to continue, it is likely that, at first, it will be marked by an efflux of gold from this country to France.

It is hardly presumptuous to predict that the course of affairs will probably be something as follows:

Exportation from England to France will considerably diminish, and with it in England the bills on France will diminish also. Importation from France, however, remaining for a while unaltered, the demand in England for bills on France will be the same as before, and therefore the price of the bills will go up.

In France, on the other hand, importation from England being checked, and exportation to England not being altered, bills on England will be in excess of the demand, and the price of them will go down—probably in the first instance so low as incoming specie point, *i.e.* so low that gold is sent from England to France by way of supplement to the importation of commodities.

The tendency of this movement of prices in the first place is to discourage exportation from France to England and to encourage exportation from England to France. The low price in France of bills on England, and the high price in England of bills on France, serve

on both sides of the Channel to lessen the profits derivable from the business of importation from France into England. Consequently those goods or classes of goods which yield the smallest profit on such importation will cease to be imported from France into England.

On the other hand, the tendency of the high price in England of bills on France, and of the low price in France of bills on England, to stimulate exportation from England to France, will be materially hindered if not entirely countervailed by the prohibitory effect of the high French tariff.

If the diminution of exports from England to France caused by the change is so great relatively to the imports from France as to require to be supplemented by the export of gold, this efflux cannot long continue without gold becoming relatively dear, and therefore either some other commodity being exported in its place, or the imports for which it pays being stopped.

The result upon the whole is, that the quantity of French products imported into England and the quantity of English products imported into France will continue diminished as long as the increased protective duties of the French tariff last. And to the extent of the diminution on either side the English and the French industries respectively will be rendered less productive and remunerative than they were before the imposition of the duties.

So much of the English industries, however, as may be rendered inactive by the loss of the French market will probably in the end, inasmuch as the products of all parts of the world are admitted into England free, find elsewhere than in France a sufficiently remunerative return for the exportation of their products. But the French industries in like predicament will, by reason of the prohibitory action of the French tariff, be seriously restricted in opportunities for similar good fortune.

THE END.

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